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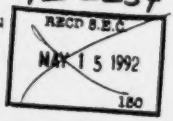
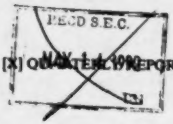
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549



FORM 10-Q



[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 33-41226

BEST COPY AVAILABLE

DIANON SYSTEMS, INC.
(exact name of registrant as specified in its charter)

Delaware (State of incorporation)	06-1128081 (IRS Employer Identification No.)
200 Watson Blvd, Stratford, CT (Address of principal executive offices)	06497 (zip code)

Registrant's telephone number, including area code: (203) 381-4000

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No__

The number of shares of Issuer's Common Stock, $.01 par value, outstanding on March 31, 1992 was 5,094,283 shares.

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DIANON SYSTEMS, INC.
AND SUBSIDIARIES
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DIANON SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS

ASSETS	MARCH 31, 1992 (UNAUDITED)	DECEMBER 31, 1991
CURRENT ASSETS:		
Cash and cash equivalents	$8,325,057	$ 9,815,253
Accounts receivable, net of allowances of $177,000 and $60,000, respectively	6,922,396	6,548,328
Prepaid expenses and employee advances	737,434	474,422
Inventory	911,515	228,732
Total current assets	16,896,402	17,066,735
PROPERTY AND EQUIPMENT, at cost		
Leasehold improvements	334,620	334,620
Laboratory and office equipment	5,289,726	4,990,190
Less - accumulated depreciation and amortization	(2,347,973)	(2,108,464)
	3,276,373	3,216,346
DEFERRED INCOME TAX ASSET	200,000	200,000
OTHER ASSETS	122,935	126,591
TOTAL ASSETS	$20,495,710	$20,609,672
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 3,783,640	$ 3,964,849
Current portion of capitalized lease obligations	101,394	100,672
Total current liabilities	3,885,034	4,065,521
LONG-TERM PORTION OF CAPITALIZED LEASE OBLIGATIONS	274,175	299,268
MINORITY INTEREST IN LIMITED PARTNERSHIP	785,300	1,127,671
Total liabilities and minority interest	4,944,509	5,492,460
STOCKHOLDERS' EQUITY:		
Common stock, par value $.01 per share, 20,000,000 shares authorized, 5,094,283 shares issued and outstanding at March 31, 1992 and 5,055,345 at December 31, 1991, respectively	50,943	50,554
Additional paid-in capital	21,233,547	21,069,877
Accumulated deficit	(5,717,036)	(6,052,776)
Foreign currency translation adjustment	(16,253)	49,557
Total stockholders' equity	15,551,201	15,117,212
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$20,495,710	$20,609,672

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

DIANON SYSTEMS, INC.
CONSOLIDATED INCOME STATEMENTS
FOR THE THREE MONTHS ENDED
MARCH 31, 1992 AND 1991
(UNAUDITED)

	1992	1991
NET REVENUES	$8,047,541	$5,863,631
COST OF SALES	3,194,139	2,072,533
Gross Profit	4,853,402	3,791,098
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,276,516	2,720,315
RESEARCH AND DEVELOPMENT EXPENSES	713,274	530,687
INTERNATIONAL OPERATING EXPENSES, NET	335,999	285,822
Income from Operations	527,613	254,274
INTEREST INCOME	80,741	53,316
INTEREST EXPENSE	12,614	30,087
Income Before Provision for Income Taxes	595,740	277,503
PROVISION FOR INCOME TAXES	260,000	27,000
Net Income	$ 335,740	$ 250,503
Weighted Average Shares Outstanding	5,511,711	4,072,001
Primary and Fully Diluted Earnings Per Share	$ .06	$ .06

The accompanying notes to consolidated financial statements are an integral part of these statements.

DIANON SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND 1991
(UNAUDITED)

	Common Stock		Additional Paid-In	Accumulated	Foreign Currency Translation	
	Shares	$ Amount	Capital	Deficit	Adjustment	Total
BALANCE, December 31, 1990	3,676,083	$36,761	$12,803,034	$(7,384,939)	$ --	$5,454,856
Stock options exercised	562	6	221	--	--	227
Employee stock awards	520	5	3,235	--	--	3,240
Change in foreign currency translation adjustment	--	--	--	--	15,560	15, 560
Net Income	--	--	--	250,503	--	250,503
Balance, March 31, 1991	3,677,165	$36,772	$12,806,490	$(7,134,436)	$15,560	$5,724,386
BALANCE, December 31, 1991	5,055,345	$50,554	$21,069,877	$(6,052,776)	$49,557	$15,117,212
Stock options exercised	38,938	389	13,743	--	--	14,132
Stock compensation expense - stock options	--	--	149,927	--	--	149,927
Change in foreign currency translation adjustment	--	--	--	--	(65,810)	(65,810)
Net Income	--	--	--	335,740	--	335,740
Balance, March 31, 1992	5,094,283	$50,943	$21,233,547	$(5,717,036)	$(16,253)	$15,551,201

The accompanying notes to consolidated financial statements are an integral part of these statements.

DIANON SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND 1991
(UNAUDITED)

	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 335,740	$ 250,503
Adjustments to reconcile net income to net cash provided by (used in) operations -		
Non-cash charges		
Depreciation and amortization	239,509	144,013
Issuance of employee stock awards	--	3,240
Stock compensation expense	149,927	--
Loss assumed by limited partner	(342,371)	(133,981)
Changes in other current assets and liabilities		
(Increase) in accounts receivable	(374,068)	(105,520)
(Increase) in prepaid expenses and employee advances	(263,012)	(192,467)
(Increase) in inventory	(682,783)	(13,144)
(Increase) decrease in other assets	3,656	(2,365)
(Decrease) in accounts payable and accrued liabilities	(247,019)	(31,938)
Net cash (used in) operating activities	(1,180,421)	(81,659)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(299,536)	(59,412)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of note payable	--	(24,291)
Repayments of capitalized lease obligations	(24,371)	(26,262)
Sale of common stock and exercise of stock options	14,132	227
Net cash (used in) financing activities	(10,239)	(50,326)
Net (decrease) in cash and cash equivalents	(1,490,196)	(191,397)
CASH AND CASH EQUIVALENTS, beginning of year	9,815,253	3,904,972
CASH AND CASH EQUIVALENTS, end of year	$8,325,057	$3,713,575
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid during the period:		
Interest	$ 12,614	$ 30,087
Income Taxes	242,130	23,612

The accompanying notes to consolidated financial statements are an integral part of these statements.

DIANON SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company - The consolidated balance sheet as of March 31, 1992, the related consolidated statements of income, stockholders' equity and cash flows for the three months ended March 31, 1992 and 1991, have been prepared by DIANON Systems, Inc. (the "Company") without audit. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows at March 31, 1992 and 1991 have been made. During the interim periods reported on, the accounting policies followed are in conformity with generally accepted accounting principles and are consistent with those applied for annual periods and described in the Company's annual report filed on Form 10-K with the Securities and Exchange Commission on March 31, 1992 (the "Annual Report").

   In July 1991, the Company registered 1,892,900 shares of common stock with the Securities and Exchange Commission. The Company sold 1,288,300 of these shares of common stock at an initial public offering price of $8.00 per share and received net proceeds of approximately $8.1 million. The proceeds have been reflected as an increase to stockholders' equity net of applicable costs associated with the offering.

   Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted. It is suggested that these consolidated financial statements be read in conjunction with the financial statements included in the Company's Annual Report for the year ended December 31, 1991. The results of operations for the three months ending March 31, 1992 and 1991 are not necessarily indicative of the operating results for the full year.

2. Stock Options - Compensation expense arising from stock options granted to employees at prices below market value on April 23, 1991 and June 12, 1991 is recognized by the Company as the stock options vest. The Company charges earnings to fairly reflect the accounting for compensation costs. The offsetting charge is made to additional paid-in capital to provide adequate provisions for additional paid-in capital when the sale and issuance of vested stock occurs.

3. Descriptive Analysis - The descriptive analysis contained herein compares the financial results of the first three months ended March 31 for the years 1992 and 1991. To accommodate the comparison of pertinent financial information the following terms will be used to denote the respective periods:

   First quarter 1992 - current three months ended March 31, 1992
   First quarter 1991 - three months ended March 31, 1991

Results of Operations

- **Net Revenues**

Net revenues were $8.0 million during the first quarter of 1992, an increase of $2.2 million or 37% from the first quarter of 1991. All of this increase was attributable to higher testing volume of the Company's existing services. The net revenues generated from biomarker testing were $5.2 million, an increase of approximately $1.1 million or 26% from the first quarter of 1991. Biomarker testing services accounted for 64% of total net revenues in the first quarter of 1992 as compared to 70% in the first quarter of 1991. The net revenues generated from tissue testing services were $2.9 million, an increase of approximately $1.1 million or 65% from the first quarter of 1991. Tissue testing services accounted for 36% of total net revenues in the first quarter of 1992 as compared to 30% in the first quarter of 1991.

- **Cost of Sales**

Cost of sales, which consists primarily of salaries and wages, laboratory supplies, outside services, logistics (primarily shipping and handling), and depreciation expense, was $3.2 million during the first quarter of 1992, an increase of $1.1 million or 54% from the first quarter of 1991. Salaries and wages were approximately $574,000 in the first quarter of 1992, an increase of $153,000 or 36% from the first quarter of 1991. This increase was principally due to the number of laboratory employees increasing from 50 in the first quarter of 1991 to 62 in the first quarter of 1992. Laboratory supplies and outside services were approximately $1.4 million in the first quarter of 1992, an increase of $613,000 or 74% from the first quarter of 1991. This increase was the result of increased sales volume, increased costs for reagents used for some of the Company's blood tests and higher costs for tissue testing services performed by an outside reference laboratory. Logistics were $675,000 in the first quarter of 1992, an increase of $188,000 or 38.5% from the first quarter of 1991. This increase was due to increased volume. As a percentage of net revenues, cost of sales increased to 39.7% during the first quarter of 1992 from 35.3% during the first quarter of 1991.

- **Gross Profit**

As a result of the increase in net revenues and the increase in cost of sales as a percentage of net revenues, during the first quarter of 1992 gross profit increased $1.1 million or 28% from the first quarter of 1991. The Company's gross profit margin decreased to 60.3% in the first quarter of 1992 from 64.7% in the first quarter of 1991. The decrease in gross profit margin resulted from the adverse impact of higher cost reagents for some of the Company's blood tests, which the Company is investigating lower cost alternative sources to replace the current reagent suppliers. In addition, this decrease was attributable to a higher proportion of tissue testing services in relation to total sales and the adverse impact of a reduction in reimbursement rates for some of these services.

The clinical laboratory industry has seen steady downward pressure on prices exerted by both government and private third-party payors. Also, payment for services such as those provided by the Company is and likely will continue to be affected by periodic reevaluations made by payors concerning which services to reimburse and which to cease reimbursing. The reduction in reimbursement rates, particularly by Medicare, has generally decreased the average unit price for most of the Company's services each year. In particular, the Medicare prices for the Company's tissue testing services have declined with the implementation of the resource based

relative value scale ("RBRVS") system which went into effect on January 1, 1992. This program will continue to reduce prices for such services through 1996, when RBRVS will be fully implemented. The Company has offset a substantial portion of the impact of these price decreases through the achievement of economies of scale and other strategies such as more favorable purchase contracts and the introduction of alternative technologies. Management expects that the impact on gross profits in the next quarter from any such price declines or adverse reimbursement determinations will be mitigated by similar steps.

- **Selling, General and Administrative Expenses**

Selling, general and administrative expenses were $3.3 million during the first quarter of 1992, an increase of $556,000 or 20% from the first quarter of 1991. This increase was primarily the result of a $407,000 increase in selling expenses due to an increase in the existing domestic sales personnel from 67 in the first quarter of 1991 to 84 in the first quarter of 1992. As a percentage of net revenues, selling, general and administrative expenses decreased to 40.7% in the first quarter of 1992 from 46.4% in the first quarter of 1991.

- **Research and Development**

Research and development expenses include the costs of building the Company's database and the review and analysis of existing and new technologies. Research and development expenses were $713,000 in the first quarter of 1992, an increase of approximately $183,000 or 34% from the first quarter of 1991. This increase is primarily due to investigating and developing new offerings for the tissue testing services.

- **International Operating Expenses, Net**

International operating expenses assumed by the Company, net of international sales of $185,000 and net of minority interest in losses of the German operations of $350,000, were $336,000 during the first quarter of 1992, an increase of approximately $50,000 or 18% from the first quarter of 1991. Total international losses were $686,000 during the first quarter of 1992, an increase of approximately $280,000 or 69% from the first quarter of 1991. The increase in total international losses is the result of the expansion of the Company's international operations and selling capacity. During 1991, the Company's European operations expanded from the German office location, established in 1988, to office locations in Paris, France and Amsterdam, the Netherlands, as well as other European countries. The Company has established a laboratory in Amsterdam and hired two technicians to support the laboratory operations. In addition, the number of international personnel has increased from 6 in the first quarter of 1991 to 12 in the first quarter of 1992. The Company's international operations efforts continue to concentrate primarily on selling the Company's Forcyte® tissue testing services and conducting testing for clinical trial programs.

- **Interest Income**

Dianon's interest income was approximately $81,000 for the first quarter of 1992, an increase of $27,000 or 51.4% from the first quarter of 1991. During the first quarter of 1992 interest income was earned on time deposits of the Company's cash and cash equivalents, as well as from interest income from a mutual fund in which approximately $5.3 million in proceeds from the public offering was invested.

- **Interest Expense**

Interest expense was approximately $13,000 for the first quarter of 1992, a decrease of $17,000 or 58% from the first quarter of 1991. This decrease was the result of a reduction in the prime lending rate, as well as the Company retiring approximately $1.6 million in bank loans with the proceeds from the public offering received in August of 1991. The effects on interest expense during the first quarter of 1992 of the reduction in prime rate and the retirement of outstanding bank loans were offset by additional interest expense associated with capital leases entered into during May, 1991.

- **Provision for Income Taxes**

Provision for income tax expense was $260,000 for the first three months of 1992, representing an increase of approximately $233,000 from the first three months of 1991. The effective tax rate was 43.6% during the first three months of 1992 compared to 9.7% for the comparable period of 1991. The increase in the effective tax rate during the first quarter of 1992 was due to the exhaustion of net operating loss carryforwards in the second half of 1991.

- **Net Income**

As a result of the foregoing, the first quarter of 1992 net income increased approximately $85,000 or 34% from the first quarter of 1991.

Liquidity and Capital Resources

As of March 31, 1992, the Company had total cash and cash equivalents of $8.3 million, of which $6.5 million was invested in either certificates of deposit with maturities of less than three months or a mutual fund. Of the total cash and cash equivalents, $7.5 million was held by the Company and $.8 million was held by the DSI/LC 1 Limited Partnership, of which the Company is the Managing General Partner and a Class B Limited Partner.

As of March 31, 1992 and December 31, 1991, the Company had working capital of $13 million and at March 31, 1992 the working capital ratio was 4.3 to 1 compared to 4.2 to 1 at December 31, 1991.

Domestic trade receivable, net, was $6.5 million as of March 31, 1992, an increase of $390,000 or 6% from December 31, 1991. During the first quarter of 1992, the average number of days sales in domestic trade receivables was approximately 72 compared to 66 days during all of 1991. This increase was attributable to first quarter 1992 sales of certain tissue testing services related to DNA analysis, for which Medicare has delayed reimbursement. Reimbursement was delayed for these pathology services pending clarification by Medicare of the RBRVS payment methodology, published November 25, 1991. The reimbursement rates have subsequently been corrected by Medicare and the Company is in the process of resubmitting these tissue testing services for the correct reimbursement amounts.

Capital expenditures during the first quarter of 1992 were approximately $300,000. In addition to expenditures for appropriate replacements in the normal course of operations, approximately $131,000 of expenditures were incurred to purchase computer hardware to support planned computer processing needs.

During the first quarter of 1992, there were no changes in the Company's existing debt agreements and the Company had no outstanding bank loans as of March 31, 1992.

The Company believes that cash flows from operations and available cash and cash equivalents are adequate to fund the Company's operations for the foreseeable future.

PART II OTHER INFORMATION

Item 1 Legal Proceedings — Not Applicable

Item 2 Changes in Securities — Not Applicable

Item 3 Defaults Upon Senior Securities — Not Applicable

Item 4 Submission of Matters to a Vote of Security Holders — Not Applicable

Item 5 Other Information — Not Applicable

Item 6 Exhibits and Reports on Form 8-K

a Exhibits

(2) Not Applicable

(4) Not Applicable

(11) Statement regarding computation of per share earnings is not required because the relevant computation can be determined from the material contained in the Financial Statements included herein.

(15) Not Applicable

(18) Not Applicable

(19) Not Applicable

(20) Not Applicable

(23) Not Applicable

(24) Not Applicable

(25) Not Applicable

b Reports on Form 8-K — Not Applicable

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DIANON Systems, Inc.

May 13, 1992

By: Richard A. Sandberg
Chairman
Chief Executive Officer
Principal Financial Officer

May 13, 1992

By: John P. Davis
Chief Operating Officer
President